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SUBJECT: Hainan Province Q3 Economic Report

REF: A) 06 Guangzhou 29114

B) 06 Guangzhou 25667

**¶1.** (U) SUMMARY: Hainan continued its strong growth in the first three quarters of 2006 with GDP growth of 12.1% - particularly in the manufacturing sector - exceeding the national growth rate of 10.7%. The completion of the Yangpu refinery boosted the island province's oil refining capability by 307.5%. Despite typhoon damage to crops, agricultural output increased by 9%. Tourism revenues were up 9.8%, and fixed-asset investment was up 17.4%. Hainan's major trade partners were Vietnam, Thailand, and Singapore. Major exports included machinery, natural gas, aquatic products, and garments. According to the Hainan Statistics Bureau, problems that affected the Province's economic performance included: reduced investment in real estate due to government control measures and the rising price of energy and raw materials. END SUMMARY.

#### HAINAN FAST FACTS

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GDP, billion USD	9.5 (12.1%)
FDI, actual use, billion USD	0.5 (8.4%)
Imports, billion USD	1.0 (-6%)
Exports, billion USD	1.1 (40%)
Fixed-asset investment, billion USD	3.3 (17.4%)
Retail sales, billion USD	2.8 (14.3%)
Consumer Price Index	101.6 (1.6%)
Disposable income per capita (urban), USD	950.4 (16.4%)
Disposable income per capita (rural), USD	334.1 (9.6%)

**¶2.** (U) Percentages in parentheses represent growth compared to the same period in 2005, according to the Hainan Statistics Bureau. All currency conversions in this report are made at the average exchange rate of USD 1 = RMB 8.0071.

**¶3.** (U) Hainan's GDP in the first three quarters totaled RMB 76.37 billion (USD 9.5 billion), up 12.1% from the same period of last year. The value-added of the primary, secondary, and tertiary sectors in the third quarter was:

Primary sector: RMB 25.06 billion (USD 3.1 billion)  
Secondary sector: RMB 20.31 billion (USD 2.5 billion)  
Tertiary sector: RMB 31.004 billion (USD 3.9 billion)

This represents an increase of 9.0%, 18.1% and 11.0% respectively.

#### INDUSTRIAL OUTPUT SOARS

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**¶14. (U)** The value-added from industry in Hainan reached RMB 15.3 billion (USD 1.9 billion), up 21.1%. In the first three quarters, the value-added of industrial enterprises with annual sales revenue of RMB 5 million (USD 624,000) or more (enterprises "above designated size," according to the Statistics Bureau) reached RMB 13.9 billion (USD 1.7 billion), up 22.8%. The newly completed Yangpu Refinery increased the island's output of polyester and oil by 507.2% and 307.5% respectively.

#### AGRICULTURE

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**¶15. (U)** Despite several strong typhoons, Hainan's agricultural value-added amounted to RMB 25.06 billion (USD 3.1 billion), up 9.0% from the same period of last year. Of this total, animal husbandry reached RMB 3.9 billion (USD 0.5 billion), up 6.4%; fishery totaled RMB 5.96 billion (USD 0.7 billion), up 11%; and agricultural services reached RMB 335 million (USD 41.8 million), up 6.4%.

#### TOURISM

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**¶16. (U)** Tourism experienced steady growth. Revenue from domestic tourists, representing nearly 90% of Hainan's

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tourism sector, in the first three quarters totaled RMB 8.98 billion (USD 1.1 billion), up 9.8%; revenue from overseas tourists reached RMB 1.19 billion (USD 148 million), up 68.0%.

#### FIXED-ASSET INVESTMENT

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**¶17. (U)** Fixed-asset investment in the first three quarters reached RMB 26.68 billion (USD 3.3 billion), up 17.4%. Projects above RMB 15 million (USD 1.9 million) accounted for 60.7% of investments, up 13.9%. Investment growth in transportation, postal services, water conservation, and the environment was particularly strong.

#### RETAIL SALES

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**¶18. (U)** Retail sales in the province totaled RMB 22.13 billion (USD 2.8 billion), up 14.3%. Urban areas' retail sales reached RMB 17.48 billion (USD 2.2 billion), up 14.9%, while rural areas' retail sales reached RMB 4.66 billion (USD 581.6 million), up 12.1%. The consumer price index rose 1.6%, the smallest fluctuation in the last 20 months.

#### FOREIGN TRADE

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**¶19. (U)** Hainan's foreign trade volume reached USD 2.1 billion. Exports reached USD 1.05 billion, up 40%, and imports accounted for USD 1 billion, down 6%.

**¶10. (U)** Hainan's trade volume with ASEAN reached USD 245 million, up over 40%. Hainan's major trade partners were Vietnam, Thailand and Singapore. Major exports included: machinery, natural gas, aquatic products, and garments. Exports of aircraft (through leasing agreements from Hainan Airlines) and their components amounted to USD 167 million, a substantial increase over last year. Major imports were machinery, aircraft, aircraft parts, steel, minerals, and

fuel. Crude oil imports reached USD 390 million, accounting for 30% of total imports.

¶11. (U) Hainan's trade volume with Taiwan grew by 25% to USD 62 million. Imports increased by over 30% to USD 51 million, while exports reached over USD 10 million. Major imports were machinery, vehicles, vehicle parts, and organic chemicals. Major exports included furniture, steel, and fertilizer.

#### RESIDENTS' INCOME AND EMPLOYMENT

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¶12. (U) Urban citizens' average disposable income for this period was RMB 7,610 (USD 950.4), up 16.4%. Rural residents' per capita income reached RMB 2,675 (USD 334.1), up 9.6%.

¶13. (U) The Statistics Bureau reported that 71,200 new jobs were created in the Province in the first three quarters, or 89% of the Province's annual job creation goal. A social security system was established for urban employees.

#### PROBLEMS IDENTIFIED BY THE PROVINCE

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¶14. (U) The Statistics Bureau identified four main problems in the Province's economic performance: "structural problems" (a phrase usually used to represent an imbalance between the agricultural, manufacturing, and service sectors), insufficient large construction projects, reduced investment in real estate due to government control measures, and the rising price of energy and raw materials.

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